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INTERNATIONAL AND NATIONAL PERSPECTIVES OF FINANCIAL INCLUSION: A REVIEW OF SELECT STUDIES

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ABSTRACT

Financial inclusion has become an important policy objective of many countries in recent years. In India this was adopted in eleventh five year plan. Financial inclusion implies access of financial services to all segments of the society. This paper highlight some studies and try to evaluate the role of Financial Inclusion at International level and national level, what are the factors which are playing important role in international and national level and to know those factors which are barrier in implementing financial inclusion?

The finding shows that some study of cross country analysis and various national level analyses laid an important focus on the positive relationship between financial inclusion and economic development. The Indian study show that there is exclusion and that poorer sections of the society have not been able to access adequately financial services from the organized financial system.

KEYWORDS: Financial Inclusion, Community Reinvestment Act (CRA), Community Financing Learning Initiative (CFLIs), Post Office Card Account (POCA), Business Facilitator (BF), Business Correspondent (BC), Know your customer (KYC), Self-Help Group (SHG), Regional Rural Banks (RRBs)

1. INTRODUCTION

The world financial inclusion can be stated as a delivery of financial service at affordable cost to sections of disadvantage and low income segment of society. The importance of financial inclusion arises from the problem of financial exclusion of nearly 3 million people across the world. This exclusion is of two types: One, exclusion from the payments system – i.e. not having access to a bank account, thus leading to non access of basic banking facility and second include the exclusion from formal credit market-i.e. requiring the excluded to approach informal and exploitative markets. This limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganised sectors is believed to be acting as a constraint to the growth impetus in these sectors. Hence financial inclusion is considered crucial for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country.

In India a committee on financial inclusion was set up under the supervision of Dr. Rangarajan in 2008. They defined financial inclusion as: "As the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at affordable cost."

Another definition given by Indian Institute of Banking & Finance said that, "Financial inclusion is delivery of banking services at an affordable cost ('no-frill' account) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society."

Considering over this issue in the Annual Policy of the Reserve Bank of India 2004-05, the Governor, Dr. Reddy observed and the Deputy Governor Smt. Usha Thorat quoted-"There has been expansion, greater competition and diversification of ownership of banks leading to both enhanced efficiency and systemic resilience in the banking sector. However, there are legitimate concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector. While commercial considerations are no doubt important, the banks have been bestowed with several privileges, especially of seeking public deposits on a highly leveraged basis, and consequently they should be obliged to provide banking service to all segment of the population, on equitable basis."

Thus from the above definition Financial inclusion can be referred to as the delivery of financial system of an economy to its member. Banking services are the backbone of financial system in any economy and are in the nature of public goods, so it is essential that it should be made available to each segment of the entire population without any discrimination.

2. BACKGROUND

Several countries had already implemented financial inclusion in their policy framework.

The origins of the current approach to financial inclusion can be traced to the United Nations where a civil right law Community Reinvestment Act (CRA) prohibits discrimination by banks against low and moderate income communities in which they are chartered. Apart from this, the State of New York Banking Department made mandatory that each banking institution should offer basic banking account and in case of credit unions the basic share draft account, which is in the nature of low cost account with minimum facilities. In an attempt to provide more stimuli to this drive United Nation made 2005 as the 'UN Year of Micro- Credit'.

The G20 Toronto Summit (June, 2010) had outlined the "Principles for Innovative Financial Inclusion", which serves as a guide for policy and regulatory approaches aimed at fostering safe and sound adoption of innovative, adequate, low-cost financial delivery models, helping provide conditions for fair competition and a framework of incentives for the various bank, insurance, and non-bank actors involved in the delivery of a full range of affordable and quality financial services.

In UK, The Financial Inclusion Task Force has been set up; they had also established a Financial Inclusion Fund, a Post Office Card Account (POCA) for those who are unable or unwilling to access basic bank account. They had started the concept of Saving Gateway for low employment group. In addition the Community Financing Learning Initiative (CFLIs) was also introduced with a view to promoting basic financial literacy among housing association tenants.

In India the Reserve Bank of India (RBI) and the Government of India (GOI) had made continuous efforts since independence to increase the banking penetration in the country. Some of these measures include the creation of State Bank of India in 1955; nationalization of commercial banks in 1969; initiating the Lead Bank Scheme in 1970; establishing Regional Rural Banks (RRBs) in 1975; introducing a Self-Help Group (SHG)-Bank Linkage Programme in 1992 and formulating the Kisan Credit Card scheme in 2001.

In 2005 Reserve Bank of India promulgated a drive where bank take a lead in providing all 'unbanked' household in a district with saving account. This started opening of 'No-Frill' Accounts as a crucial policy initiative. 'No-Frill' accounts are either have a low or nil balance with some restriction in transaction. The individual bank has the authority to decide whether the account should have minimum or nil balance. Also a Committee on Financial Inclusion was set up under the supervision of Dr. C. Rangarajan which recommended that each semi-urban/rural bank branch open roughly 250 bank account annually which if successful would result in approximately 11.5 million account across country. With the combined effort of all these financial institution, six million new 'no-frill' accounts were opened up in the period between March 2006-07.

In January 2006, banks were permitted to utilize the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services through the use of business facilitator (BF) and business correspondent (BC) models.

For reducing procedural hassles, know your customer (KYC) procedures for opening accounts has been simplified. The Reserve Bank has directed banks to

make available all printed material used by retail customers in English, Hindi and the concerned regional language. To extend hassle-free credit to bank customers in rural areas, the guidelines on General Credit Card (GCC) schemes were simplified to enable customers' access credit on simplified terms and conditions, without insistence on security, purpose or end-use of credit.

A simplified mechanism for one-time settlement of loans with principal amount up to Rs.25,000 which have become doubtful and loss assets as on September 30, 2005 was suggested for adoption. Banks have been specifically advised that borrowers with loans settled under the one time settlement scheme will be eligible to re-access the formal financial system for fresh credit. In the Reserve Bank, the Customer Service Department has recently been constituted to serve as the interface between customers and banks.

Moreover, the Government of India has also expressed its explicit concern on the issue of overall inclusion in the development process through its various initiatives such as the Rural Employment Guarantee Scheme, the Bharat Nirman programme, the Sarva Shiksha Abhiyan, and the like.

3. OBJECTIVES

The objectives of this study are:

- To evaluate the role of Financial Inclusion at International level and
- To evaluate the role of Financial Inclusion at national level.
- To know the factors which are playing important role in international and national studies?
- To know those factors which are barrier in implementing financial inclusion?

Further this paper is organised as follows: section 3 deals with detailed methodology, section 4 results and discussion, section 5 concludes the paper and section 8 draws out the limitation of the study.

4. METHODOLOGY

The methodology will go simultaneously as the objective of this study is defined. Firstly, all those studies which are done on an international level their finding will be explored. These studies is done at two level first, cross-country study and second, country-specific study. Secondly all the studies which are done at national level will be highlighted. This is also categorised in two parts: first, all India based study (covering all India State) and area-specific study. This is as follows:

3.1. International Studies on Financial Inclusion

These studies tells about the international experience of financial inclusion, there necessity and outcome. Further these study are categorised in two parts: (i) Cross-Country study and (ii) area –specific study. They are as follow:

3.1. (i) Cross-country Study:

These studies had concentrated on examining the factors which are related to accelerate financial inclusion, their impact and consequences. They are as follows:

King and Levine (1993) presented cross-country analysis that the financial system can promote economic growth. The objective of this paper is to show that the predetermined components of financial development are robustly correlated with future rates of economic growth, physical capital accumulation and economic efficiency improvement. They took the data of 80 countries over the period of 1960-89. They used four indicators of financial system as predetermined components of financial development. First being ratio of deposit money bank domestic assets to deposit money bank domestic assets plus central bank domestic assets. Second include financial depth in terms of other function provided by the banks. Third indicator being ratio of non-financial private sector over credit and the fourth being degree of public sector borrowing. They also used four indicators as the component of economic growth, physical capital accumulation and economic efficiency improvement viz., first being GDP, the second being growth rate of the per capita physical stock , third being anything remaining which is not the part of second indicator and fourth being gross national investment divided by output. They ran the correlation between finance and growth and found that during the period countries with slower growth rate in financial system had low financial development as compared to countries with high growth rate. They also ran comtemporaneous regression and gauge the strength of correlation and summarised that in due process poor countries react more quickly in terms of growth to the changes in financial development that in the richer country because of the growth in financial system.

Beck et al. (2004) focuses on one specific policy area – financial intermediary development – and its effect on income inequality and poverty alleviation. Using a broad sample of 52 developing and developed countries, with data averaged over the period 1960 to 1999, this paper assesses whether there is a direct relationship between financial intermediary development and changes in income distribution. They hypothesised that this relationship is crucial in understanding the linkage between financial development and poverty alleviation since poverty reduction in any given country is determined by the growth of mean income and changes in income distribution. For financial intermediary development variable they used the breadth and depth of financial system and for income GDP and per capita income of the country is used. Given that there is already significant evidence that financial development is pro-growth, they seek to determine whether financial development is also pro-poor. By pro-poor, they mean does financial development significantly improve income distribution by disproportionately boosting the incomes of the poor. They used the growth rates of (i) income of the poorest quintile, (ii) the Gini coefficient, and (iii) the standard deviation of income distribution. To test whether financial development boosts income growth of the poor more than the average, they examined the relationship between finance and income growth of the poor while controlling for average income growth. Their results indicate that finance is pro-poor. The income of the poorest quintile grows faster than average GDP per capita in countries with better-developed financial intermediaries. Income inequality, measured both by the Gini coefficient and the standard deviation, falls more rapidly in countries with higher levels of financial intermediary development.

Beck et al. (2005) presented cross-country study among various developed and developing countries about access and use to banking services across countries. The main focus was to explore the relationship between banking sector outreach (access) and financial depth (use) towards economic development of the country in terms of GDP. They used the data of 99 countries in the period 2003-04. For banking sector outreach they used two classes of indicators number of branches and ATM relative to population and area. To represents the financial depth they had used the deposit and credit services by loan and deposit account relative to the population. They conducted a number of "reality check" on the proposed outreach indicators to test the validity of the indicators. They ran OLS regression model and explored that the proportion of population that has access to and uses of financial service, identify some obstacles to access in terms of environment effect, or cultural barriers. Their finding reveals that both outreach and depth indicators are positively associated with the overall level of economic development. Thus in this manner this paper had first attempted to measure outreach and depth in a cross country analysis.

Beck et al. (2008) expanded this paper to include the notion of financial "exclusion" as a barrier to economic development and the need to build inclusive financial systems. They laid emphasis that financial exclusion acts as a brake in economic development. Exclusion occurs because there are certain types of barriers. For this study they used the same data set as used in earlier study (Beck et.al.(2005)) covering the period of 2003-04 across 99 countries. For banking outreach they had used the two indicators, number of branches and ATM relative to population and area. To represents the financial depth they had used the deposit and credit services by loan and deposit account relative to the population. For barriers they had used banking ownership, cultural barriers, media freedom and immigration. They applied the correlation technique for both penetration and found that these barriers are negatively correlated with banking penetration and outreach and may exclude a large percentage of population from using banking services in many countries.

Sharma (2008) proposed a comprehensive measure that can be used to measure the extent of financial inclusion in an economy. This paper proposes an index of financial inclusion (IFI), following a multidimensional approach similar to that used by UNDP for computation of some well known development indexes such as the HDI, the HPI, the GDI etc. in order to know the extent of financial inclusion. The IFI developed here incorporates three dimensions like banking penetration, availability of banking services and usage inclusive financial system. These dimensions of financial inclusion lie between 0 and 1, where 0 denotes complete financial exclusion and 1 indicates complete financial inclusion in an economy. For computation of IFI first a dimension index for each dimension of financial inclusion is created. Then IFI equation is formed for separate country. For this purpose they had taken data 94 countries in 2004. With this index they compare the extent of financial inclusion across different economies and on the basis they generalised that higher the index higher the economy is showing progress towards financial inclusion.

Chibba (2009) studied various developed and developing country to know the effect of financial inclusion (FI), poverty reduction (PR) and millennium development goal (MDG). This approach was named by her as FI-MDG-PR nexus where financial inclusion (FI) offers incremental and complementary solutions to tackle poverty (PR), to promote inclusive development and to address the millennium development goals (MDG). This paper focuses on approaches to planning, policy-making and programming in order to strengthen the FI-PR-MDG nexus. Based on field research and related analysis, it was suggested that tackling FI and strengthening the FI-PR-MDG nexus requires a focus on four key pillars: private (financial and non-financial) sector development, financial literacy, microfinance and public sector support. The paper highlighted five such models: (1) formal financial sector consensus; (2) public sector leadership, (3) private sector development, (4) civil society/NGOs, and (5) the catalytic model. They concluded that these models play the leading role in countries such as India, South Africa and Mexico. As financial inclusion is a dynamic and multidimensional process all of these models play crucial role but at varying degrees. One fact also came out that the majority of developing countries have the advantage of learning from lessons learned by the early leaders, and of emulating or adapting proven approaches to tackling financial exclusion through the informed use of

these five models.

Sharma (2010) first pointed the methodological difference with the UNDP methodology in the manner in which dimension indexes are combined to compute the final index. Unlike the UNDP's methodology of using an average (a simple arithmetic average in case of HDI, GDI and GEM and a geometric average for HPI), index is based on a measure of the distance from the ideal. Data for this study was taken from the database published, for the first time (and unfortunately for the last time till date), some data on deposit money bank branches and deposit accounts for 209 countries in the World Bank's list of economies. These data are for the latest year during 2001-04, and collected from surveys of banking and regulatory institutions by the World Bank's Research Department and Financial Sector and Operations Policy Department (WDI, 2006).For the usage dimension, International Monetary Fund's (IMF) ,International Financial Statistics (IFS) database provides data on credit and deposit. They used three dimensions penetration, availability and usage to financial system. Here they assigned weight for each dimension and computed IFI. They came to conclude that this was the more precise measure of finding the extent of financial inclusion.

Chakravarty & Pal (2010) In order to get an aggregate picture of banking activities in different dimensions, they designed an index of financial inclusion. This is because from individual dimensions they get only partial information on banking activities. The position of one country may be quite good in one dimension but not in other. Finding out that the patterns of changes in different dimensions of banking services over time are quite diverse they laid that it become necessary to get a comprehensive picture of the situation so there is a necessity to have an overall index of financial inclusion. This index was a measure of banking performance. A higher value of the index will indicate a better performance since an improvement in the banking activity in a dimension will represent a higher value. Such an index may be referred to as a functioning achievement index. The objective of the paper includes creation of axiomatic structure and index to be broken down into dimension-wise components for calculating the individual percentage contribution. They had taken the data of 55 countries for the period for the year 1999, 2001 and 2007 and also the national data for different Indian states for the year 1999, 2001 and 2007. They used variables like geographic penetration, demographic penetration, deposit account per 1000 people, credit account per 1000 people, and deposit as percentage to income and credit as percentage of income. They created the overall index of financial inclusion for measuring and comparing cross-country and state data. For this they used the axiomatic structure and came out with the conclusion that axiomatic structure is better indicator of different dimension than the one created by Sharma using UNDP method.

Sharma & Pais (2011) presented a cross country empirical analysis of the relationship between financial inclusion and development. Using the index of financial inclusion developed in Sarma (2008), the paper attempts to identify the factors that are significantly associated with financial inclusion. They identified three factors of which affect financial inclusion these are socio-economic, infrastructure and banking variables. The data for this study was taken for the period 2004 of 49 countries. They ran three sets of regressions on the IFI on three different sets of variables. The finding of this study came out that among socio-economic factors; income is positively associated with the level of financial inclusion. Going beyond income, inequality, literacy and urbanisation are other important factors. Further, physical infrastructure for connectivity and information are also significantly associated with financial inclusion. Among the banking sector variables, NPA and CAR are negatively associated with financial inclusion. Government ownership of banks is not significantly associated with financial inclusion while foreign ownership is found to be negatively associated. Interest rate does not seem to be significantly associated with financial inclusion.

3.1. (ii) Country-specific Studies

These study deals with the situation of a particular country or particular area of country and its impact. These are as follows:

Jones (2006) advocated that a substantial proportion of the funding should be allocated to third sector lenders such as credit unions operating in low-income areas to enhance financial inclusion task apart from HM Treasury2005. They used the data of Credit unions in the West Midlands that began in the period March 2002 to December 2004.They adopted a “New model” methodology for West Midlands's credit unions with a road-map for their transformation into more effective financial institutions. With this they came to know as 'quality credit unions'. This new model methodology, and the concept of a quality credit union, offers British credit unions the opportunity to generate the capacity to offer low income and financially excluded groups the accessible and affordable services and products they need, want and deserve.

Kempson & Collard (2012) reviewed the UK's progress towards financial inclusion, and develops an evidence-based vision for achieving financial inclusion over a ten-year timeframe i.e. from 1999-2009. Financial inclusion policy and practice has come a long way since Policy Action Team 14's landmark report in 1999. Other countries, in Europe and elsewhere, continue to look to the UK as a leader in this field. This paper is based on the objective that everyone should have access to, use and retain: an appropriate account, or equivalent product, into which income is paid, can be held securely and accessed easily; an appropriate method of paying, and spreading the cost of, household bills and other regular commitments; an appropriate method of paying for goods and services, including making remote purchases by telephone and on the Internet; an appropriate means to smooth income and expenditure. They should be able to use these transaction services without the risk of losing financial control or incurring excessive or unexpected charges. They tried toinhance more financial inclusion for this they had taken four basic banking services namely, banking, credit, saving and insurance. They research methods used on the above four areas to know the influence of financial capability and over-indebtness on the level of financial inclusion are evidence assessment, initial round table meeting, telephone depth interview, community select committee and final round interview. They came to conclusion that in order to have a vision for financial inclusion there is a need to incorporate the different needs that financially excluded people may have and indicates how these might be met in an appropriate way. Only when financially excluded people are able to meet these needs can this vision for financial inclusion be said to have been achieved. Their vision for financial services for meeting day-to-day needs is that everyone has access to, uses and retains. This would also require a shift away from a heavy reliance on credit to meet most or all of these needs, towards a more balanced mix of saving, borrowing and insurance.

Thus, we can sum up that cross-country study focuses on the relationship between financial inclusion or well functioning financial system and economic development. Where financial inclusion or system on the one hand indicates the branch penetration, credit and deposit ratio, on the other hand economic growth or development is indicates GDP or per capita income. As the more precise measure evolved with the creation of Index of Financial Inclusion (IFI), it became easier to get to know about the extent of financial inclusion. This also helped in comparing IFI among different set of countries and its relationship with economic development and growth. Some studies had also analysed the country-specific determinants such as socio-economic, infrastructure related and banking sector variable which play a vital role in influencing the level of financial inclusion. Some country specific study we find out that the level of financial inclusion is highly dependent upon a country specific factors such as socio, legal, demographic, cultural, political, etc. The country with higher financial inclusion is one who does not have this level of barriers in their system.

3.2. National Studies on Fiancial Inclusion

The study related to India analysed the importance of financial inclusion drive in India its need and importance. This is also categorised in two parts: (i) National-level studies and (ii) area-specific studies. Some of the few studies are as follows:

3.2. (i) National-level Studies:

This section covers those studies which are done at national level. These prime objective of these studies are to focus the importance of financial inclusion in Indian level. These are as follows:

Burgess & Pande (2003) identified the impact of opening a rural bank and its impact on poverty and output. They suggested that the Indian rural branch expansion program will significantly lower rural poverty and increase non-agricultural output. They used a panel data-set for the sixteen major Indian states over the period 1961-2000.They used a branch level data-set for every bank branch opened since 1805 in banked, unbanked and rural unbanked locations as their variables. They used OLS to know the relationship between rural bank branch expansion and rural poverty. They concluded that expanding access to finance in poor, rural settings can generate significant social returns.

Mohan (2006) studied the impact of economic growth, financial deepening and the relationship of financial inclusion in the Indian economy. Data for the study was taken of all Indian state covering the period 2005-06. The financial deepening variables include banking penetration and usage of banking services. The growth variables include per capita. The study concluded that those state that had greater financial deepening are more growth oriented.

Aggarwal(2008) focuses that in India the level of financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. A current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. At one extreme, are the 'superincluded' (those who have at their disposal a wide range of financial services and products) At the other extreme, are the financially excluded, (those who are denied access to even the most basic of financial product). In between are those, who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers. Secondary research was conducted to study the scenario of financial inclusion in India. For this purpose data for the years 2001- 2006 had been taken from Reserve Bank of India, Indian Institute of Banking and Finance and Updated Master Office Files of Office of Registrar General and Census Commissioner, Government of India. To know the flexibility of access offered to customer interviews of the representative of the two NGOs, namely 'Asha' and 'Need” and the SHGs attached to these NGOs were taken. These social organizations were operating in the states of Uttar Pradesh, Bihar, Madhya Pradesh and Uttrakhand. They did qualitative surveys and concluded that to meet the growing credit demand the banks need to mobilize resources from a wider deposit base and extend credit to activities not financed by banks. Thus financial inclusion should strengthen financial deepening and provide resources to the banks to expand credit delivery.

Swamy (2010) suggested some policy choices for successful implementation of the policy of financial inclusion for sustainable growth of Indian economy. The objectives of the study was to know the significance of financial inclusion in terms of inclusive growth for sustainable economic development and to evaluate the extent of financial exclusion in India in terms of spatial distribution of banking services, number of deposit and credit accounts in scheduled commercial banks, population coverage per office region-wise, ratio of direct agricultural credit to agricultural GDP, total GDP and total credit, coverage of farmer households as per social groups and non-indebted farmer households as per different land holdings. The methodology of this study has two parts : the approach and data collection. The approach include evaluation of the coverage of financial inclusion in terms of the extent of financial inclusion The study is based on the secondary data available from the various sources such as RBI, NABARD, reports of various committees, National Sample Survey Organization (NSSO), National Accounts Statistics of Central Statistical Organization (CSO) and other apex level organizations for the period of 1969 to 2005. They concluded that financial inclusion has, in reality, far reaching positive consequences which can help resource poor people to access the formal financial services in order to pull themselves out of abject poverty. The focus on the common man is particularly imperative in India as he is the more often ignored one in the process of economic development. Indeed, with the process of financial inclusion, the attempt should be to lift the resource poor from poverty through coordinated action amongst the banks, the government and other related institutions in order to facilitate access to bank accounts and other related services.

Pandey et al.(2010) laid stress on the issue that financial institutions should integrate across the entire agriculture value chain for financial inclusion because agriculture is an important component in growth and employment generation in India and new innovative payment solution should be introduced. They studied the key features of Indian agriculture and generalised that the agriculture system had changed from conventional system to more agriculture-value-system(A-V-S). This A-V-S includes three components physical product flow, financial flow and informational flow. ICT-enabled payment technology role was focused. Various technologies show promise for lowering the costs, managing the risks and increasing the efficiency of financial services in the rural areas, including automated teller machines (ATMs), point-of-sale (POS) devices linked to smart cards, cellular phones, GIS mapping systems, and loan officers using personal digital assistants (PDAs). They also did a case study on M-Pesa account launched by Vodafone which enable more easily money transfer through mobile. They concluded that Indian economy should also make their agriculture value system ICT enabled.

Priyadarshee et al. (2010) laid emphasis on Indian post as a means for covering social protection schemes of the government for curbing financial exclusion among the poor. They analysed three Indian states and suggested that financial inclusion strategies may be inefficient if designed without accounting for the government social protection programmes. An examination of the official data on India Post indicates that the approach of diversifying its financial products to target higher-end clients in largely urban areas may not be appropriate due to its competitive disadvantage. They argue that delivery of financial services through post offices, built around social protection, may contribute to financial inclusion in rural areas while improving revenues of India Post. The data for the study covered three major Indian states of Andhra Pradesh (AP), Uttar Pradesh (UP) and Gujarat, for the period 2001-07. They captured the role of MFI, SHG and the number of post offices, their financial and premium schemes in all those state. They analysed data provided by the secondary sources and came to conclude that the poor people are not able to entirely access their entitled benefits from social protection programmes as such programmes generate their own financial needs, these remain largely unmet. They focused that India Post should be made complementary in achieving financial inclusion as India Post is suitably located to deliver such social protection- linked microfinance services because of its close proximity to the rural population, and its personnel being known to and trusted by the local communities.

Kumar & Misra (2011) attempted to measure and understand financial inclusion across Indian states and Union Territory. This study has used the data from Reserve Bank of India for the year 2002-03. This report presents comprehensive data on deposits and credit of scheduled commercial banks and the information on number of employees of these banks, as on 31st March 2003. The data collected were through the annual statistical surveys, Basic Statistical Returns (BSR)-1 & 2, from the offices of scheduled commercial banks in India including Regional Rural Banks. They classified the population into rural, semi-urban,urban and metropolitan. They had taken two indicators of financial system : first, supply of (banking outreach indicators such as number of deposit and credit accounts, number of bank branches, average deposit and credit amount per account and credit utilized) and second demand for (indicators of household level access such as the proportion of households having saving, credit and insurance facilities) financial services. Separate composite Financial Inclusion Indices (FIIs) were calculated for both the data sets for the year 2002-03 for all the States/Union Territories of India. In both the cases, they observe a lot of variation across states, for rural and urban regions. Even within a state, differences are clearly evident between rural and urban areas for the different indicators considered. The presence of informal sector in providing financial services is significant, especially in rural areas. Thus, they concluded that from a policy perspective, two things are relevant: One, is to widen the ambit of policy initiatives under financial inclusion, which will reduce the dependency on informal source of financial services, particularly credit. Second, is to provide greater focus on vulnerable states/regions in providing access to financial services on which they are lagging.

3.2. (ii) Area-specific Study:
These studies relates to a particular area, their experience in financial inclusion. They are as follows:

Natu et al. (2008) focused that financial inclusion apart from access involves usage as well. It presents the prospect of coupling financial inclusion with social security schemes. They hypothesised that social security scheme such as the National Rural Employment Guarantee Programme (NREGP) which provides a regular and steady stream of income to the poor should be associated with financial inclusion drive. They studied a model which was pilot-tested in Karimnagar district in Andhra Pradesh by Financial Information Network & Operations Ltd. (FINO), a technology provider, who tried to facilitate financial inclusion over the channel and reach created by NREGP. They proposed a model for linking financial inclusion with NREGP in a district where NREGP is operational and there exists a microfinance institution (MFI) or an NGO which can work as a Business Correspondent for the local bank. The government can partner with the bank in ensuring that the weekly wages are directly credited to the savings accounts that have been created for the beneficiaries. Post offices (POs) as an existing infrastructure can also play the role of a Business Correspondent for this model. The outcome of this paper was that the financial inclusion drive be jointly implemented. This joint implementation drive will ensures the frequent usage of bank accounts while providing much needed financial products to the poor. Their proposal also emphasised the use of technology such as a smart card to enhance the efficiency and security of the transaction.

Thyagrajan et al. (2008) analysed the importance of cost –benefit and usage of opening a no-frill account. This study aimed to analyze the results of the 100% no frills financial inclusion drive in Cuddalore district of Tamil Nadu in terms of coverage by geographical and other categories; cost involved in account opening and maintenance as also the transactional usage behaviour of such accounts. They calculated the breakeven point after which the banks would earn revenues. The study analyzed the willingness and unwillingness of households to open bank accounts as reported by different banks and geographical category in order to understand the performance of different stakeholders involved in the execution of the project. They did Coverage study, survey, interview and calculated the total Cost of opening bank account and the breakeven cost which came below total cost. The study presented an overall position of the financial inclusion project in Cuddalore district after one year of its implementation. They found that though the project had a strong social mission of financial inclusion, the mission had not been fully translated into satisfactory action on the ground. There were several gaps on the in its implementation which needed to be corrected.

Chavan & Birajdhar(2009) studied the role of micro finance as means of credit-based poverty alleviation and enhancing financial inclusion. In this study primary data on SHGs, micro finance institutions, access and affordability of micro finance for women borrowers and movement of women borrowers out of SHGs were taken. The primary data was collected from a field level survey conducted in 2006 through interviews of both SHGs and SHG beneficiaries in the district using structured schedules. There were 35 SHGs selected for the survey and three members from each SHG were interviewed making the total sample size of 105 members in the Kancheepuram district of Tamil Nadu. The findings of this study showed that micro finance in India had limited scale and access further women are its main client which again showed limited spread. Not only this they charge relatively high rates of interest on SHG loans, as compared with the rates of informal sector. Due to interest rates and irregular repayments of loans there is caused dropouts of members. Hence, the observation reflects the considerable scope for micro finance to evolve as an effective means of financial inclusion that is accessible and affordable for the excluded groups/regions and that can also help loosen the grip of informal sources of finance and ensure permanent inclusion of the excluded sections in the ambit of formal finance.

Ramaji (2009) conducted study to assess the implementation of the financial inclusion drive and usage of banking services by households in Gulbarga district in Karnataka, one of locations claimed to have achieved 100% financial inclusion. This study relied mainly on quantitative techniques. Surveys, in-depth interviews, and in-situ observation were the primary data collection methods utilized during the study. A structured questionnaire survey was administered to 999 respondents, spread over 50 villages. This survey collected information on logistics and awareness levels regarding the drive, opening and usage of accounts, availability and perceptions of formal and informal finance for households, and the financial habits of respondents. It came from the study that being a poor village this aimed at having 100% financial inclusion because there were NERGP playing a very heavy role in opening household bank accounts, giving them financial literacy and creating awareness about saving options.

Thus, we can say that the financial inclusion drive in India is very important in order to accelerate economic development. The basic feature of India had a large number of poor populations who do not have access to even $ 2 a day. Thus this

section of population do not have bank account and are thus out of the benefit of financial system of the country. In India the level of financial inclusion is defined by banking branches, ATM, number of employee for and deposit and credit ratio per select population. Every state had its particular features there are some where 100% financial inclusion may be beacuse Indian economy is also characterized by high influence of microfinance institutions (MFI), self-help groups (SHG), non-governmental organization (NGO) besides banks. There is also one study which depicts the role of Indian Post to include large number of population. On the part of government also various social security schemes are there for poor people. Still there is much need to create awareness, financial literary among the section of excluded segment to know the importance of financial inclusion and to bring them under the ambit of it. On the part of the Government there is also a need to make policy level change and bring the drive of 100% inclusion.

5. CONCLUSION

The studies had identified that financial inclusion is a main driving force to bring a section of population into the ambit of financial institution of a country. This paper attempted to study various aspect of financial inclusion on cross country basis and through national study analysis. Financial inclusion as we known is the delivery of financial service to the lower segment of the society who is not a part of a formal financial structure of a country. Some study of cross country analysis and various national level analyses laid an important focus on the relationship between financial inclusion and economic development. These theories suggested that economic development is positively correlated with financial development of a country or state. Those countries who have strong access to formal financial system had more progressive growth opportunity then the country who do not have the access to it. The Indian study show that there is exclusion and that poorer sections of the society have not been able to access adequately financial services from the organized financial system. They suggest that there is an imperative need to modify the credit and financial services delivery system to achieve greater inclusion. These institutions should meet the credit requirements of marginal and sub-marginal farmers in the rural areas in a fuller measure. While banks and other financial institutions can also take some efforts on their own to improve the absorptive capacity of the clients, it is equally important for Government at various levels to initiate actions to enhance the earnings capacity of the poorer sections of the society. With policy level change and with the channelization of MFI, NGO and SHG and more social security protection program there can be the desired change and greater inclusion.

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